

Research Highlights

Improving Health Care Options for the Nation's Over-65 Military Retirees

First-Year Results from the TRICARE Senior Prime Subvention Demonstration

The Department of Defense (DoD) is committed to providing comprehensive health care for the men and women who serve their country. But its health care system, one of the nation's largest, falls short of this goal for military retirees once they reach age 65 and become *dual-eligible*—eligible for both DoD health care and for Medicare.

At this point, retirees are no longer covered by TRICARE, DoD's health insurance program. Dual-eligible retirees are left with three health care options:

- Continue to get free care at military facilities but only on a space-available basis that interferes with continuity of care, and without health-plan benefits, such as prescription drug coverage. Dual-eligible retirees may even have trouble obtaining space-available care. More active-duty personnel and family members are using military treatment facilities, and they have the highest priority for care through enrollment in the TRICARE Prime managed-care plan.
- Obtain fee-for-service care from community providers in the standard Medicare program. However, retirees who choose this option may have to buy supplemental insurance to pay for health care costs not covered by Medicare.
- Enroll in a civilian Medicare managed-care plan. These plans often have benefits similar to TRICARE benefits, but enrollees can only use providers that participate in the plans.

(Congress recently authorized extending TRICARE eligibility to all military retirees, regardless of age. This will give them a fourth health care option in the near future.)

The nation's 1.4 million dual-eligible retirees appealed to Congress and the Department of Defense to allow them better access to military health care. Congress and DoD are testing a

number of ways to respond to this group's concerns. One experiment is *Senior Prime*, a Medicare program offered through TRICARE to dual-eligible military retirees and eligible family members. The program is being operated on a trial basis by DoD and the Health Care Financing Administration (HCFA), the agency that administers Medicare.

Senior Prime is being tested at six demonstration sites. The goal of the demonstration is to implement a cost-effective way to provide dual-eligible beneficiaries with comprehensive health care through the military health care system while maintaining budget neutrality, that is, not allowing total government costs (Medicare plus DoD spending) for services to increase. RAND was asked to evaluate how well Senior Prime is meeting this goal. Key findings after one year of Senior Prime operation:

- Retirees like Senior Prime. Demonstration sites report positive feedback from retirees about how well it serves them. Growing numbers are joining Senior Prime as they turn 65 and sign up for Medicare.
- During its first year, Senior Prime did not meet its goal of budget neutrality. Although Medicare costs declined modestly, DoD costs increased substantially.

For more information

Farley, Donna O., Katherine M. Harris, J. Scott Ashwood, George J. Dydek, John B. Carleton. 2000. *The First Year of the Medicare-DoD Subvention Demonstration: Evaluation Report for FY1999*. Santa Monica, CA: RAND, MR-1271.0-HCFA.

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The TRICARE Senior Prime Subvention Demonstration

By statute, Medicare cannot reimburse DoD for care provided to Medicare beneficiaries through the military health care system. However, the Balanced Budget Act of 1997 suspended this ban by authorizing the TRICARE Senior Prime Subvention Demonstration. *Subvention* refers to the fact that in the demonstration, Medicare will make payments to DoD.

DoD set up Senior Prime plans within TRICARE at six demonstration sites throughout the country (see Figure 1). The first site, at the Madigan Army Medical Center in Tacoma, Washington, began operation in September 1998, and all sites were operational by January 1999.

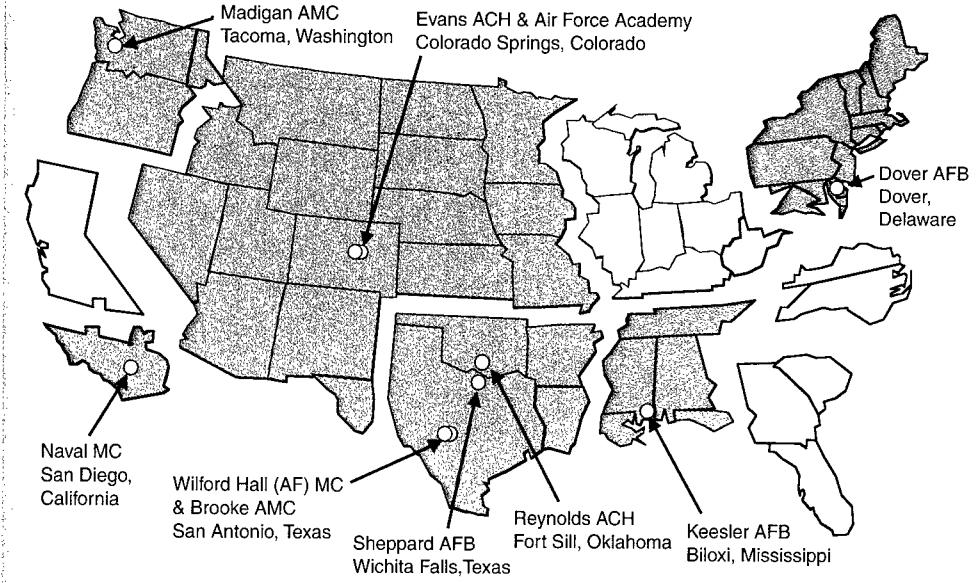
Originally, the demonstration was scheduled to run through 2000, but the federal government has extended it to the end of 2001.

In developing Senior Prime, both DoD and HCFA shared the goal of beneficiary service, but their differing financial goals had to be balanced during payment negotiations (Table 1).

Table 1. Both DoD and HCFA Had Specific Program Goals for Senior Prime

| DoD Goals | HCFA Goals |
|--|--|
| Help fulfill its obligation to provide dual-eligible beneficiaries with health care for life | Protect the solvency of the Medicare trust funds |
| Maintain budget neutrality in the military health care system | Give Medicare beneficiaries choices and protections |
| Strengthen its ability to provide cost-effective managed care | Ensure that the Senior Prime plans perform effectively |

Figure 1. Senior Prime Demonstration Sites



ACH = Army community hospital; AFB = Air Force Base; AMC = Army medical center; MC = medical center.

Senior Prime is being tested at six demonstration sites, each a service region of TRICARE, the military health insurance program. Health care is provided by a total of 10 military treatment facilities.

How Does TRICARE Senior Prime Work?

TRICARE Senior Prime is a program of health plans set up as *Medicare+Choice* plans. *Medicare+Choice* is the name of Medicare's new managed-care program. Under these plans, DoD assumes the financial risk for providing care to its Medicare-eligible retirees. In return, Medicare reimburses DoD a set amount per person, called a *capitation payment*. But Medicare does not make these payments unless the demonstration sites have spent at least the same amount on health care for all dual-eligible beneficiaries—both Senior Prime enrollees and those who did not enroll—as they spent on dual-eligible beneficiaries in the past. This amount is the sites' *historical level of effort*.

Senior Prime is a voluntary program with a total planned enrollment of around 28,000. To take part, retirees agree to get all of their covered services through Senior Prime at the military treatment facility in the demonstration site where they reside. Other requirements, such as enrollment in Medicare Part B, also apply.

Retirees enrolled in TRICARE Senior Prime get care on the same high-priority basis given active-duty personnel and others through TRICARE Prime. If needed, they can go to

civilian providers in the Senior Prime network. Retirees also get benefits, such as prescription drug coverage, normally provided by TRICARE but not by Medicare.

First-Year Results

Results from the first year of the Senior Prime demonstration were mixed. "Senior Prime has been successful operationally but not financially," said RAND health policy analyst Donna Farley, who led the evaluation team.

Retirees Like Senior Prime

The program is so popular that more military retirees than expected are joining the demonstration as they turn 65.

Consumer Reports (June 2000) rated TRICARE Senior Prime a "top value" in two of the six demonstration sites.

Budget Neutrality Remains Elusive

It was not reached during the first year of TRICARE Senior Prime operation. Figure 2 shows how costs shifted from Medicare to DoD.

- *Medicare's savings were modest.* Compared with before the demonstration, Medicare spent 3 percent less in payments to the demonstration sites under Senior Prime. Most of the cost savings came from retirees who left civilian Medicare+Choice plans for Senior Prime: Medicare pays a lower capitation rate for Senior Prime plans than for civilian counterparts. But at the control sites selected by RAND for the evaluation, Medicare paid nearly 6 percent more than it did the previous year because of fee increases and greater use of Medicare services by dual-eligible beneficiaries.
- *DoD's costs jumped nearly 30 percent at the demonstration sites* compared with what the military spent on over-65 retirees before the start of Senior Prime. Costs increased at the sites because Senior Prime enrollees sharply increased their use of the health-care facilities, and they received more services. In addition, DoD paid civilian network providers when Senior Prime enrollees had to use them—for example, when military health-care givers were deployed or rotated to meet the military's readiness mission. Payments to civilian network providers accounted for about 10 percent of DoD's total spending during the first year of Senior Prime. In contrast, at the control sites DoD spent 6 percent less on over-65 retirees than it spent before Senior Prime, possibly because continued

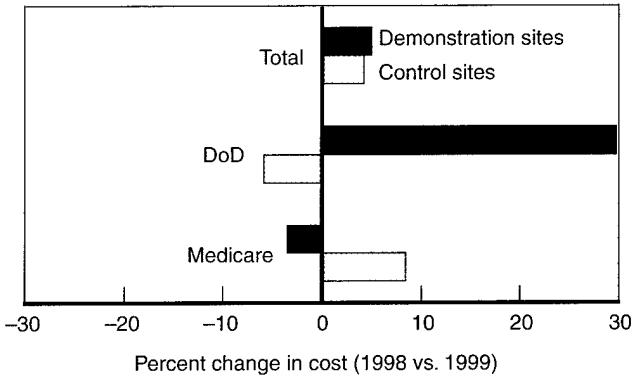
growth in TRICARE Prime enrollment by active-duty personnel reduced space-available access for dual-eligible retirees.

Medicare Compliance Is Demanding

DoD must follow Medicare's compliance rules to run TRICARE Senior Prime plans as Medicare+Choice plans. This had both positive and negative effects at the demonstration sites.

- Sites reported that having HCFA oversee their activities increased their accountability for performance, improved the quality of care given, and strengthened beneficiary protections. Sites also benefited by transferring skills they acquired from operating TRICARE Senior Prime—for example, proactive case management—to managing the TRICARE Prime plan for active-duty personnel.
- However, sites also reported that Medicare compliance created a heavy administrative burden on staff and that some requirements were excessive or not relevant to military health care.

Figure 2. First-Year Cost Analysis



The first year of Senior Prime operation missed the goal of budget neutrality: Medicare's costs decreased slightly, but DoD's costs increased considerably.

Expansion Worries Demonstration Sites

If Senior Prime becomes a permanent program, enrollment will probably increase because retirees who were initially reluctant to sign up for the trial run will join. Demonstration sites are worried that they will not be able to serve many additional enrollees. They report that capacity at primary care clinics is limited, and administrative staff are already overburdened. To ease this situation, the sites suggested that DoD allow civilian network providers to be primary care managers for Senior Prime enrollees. This is not allowed under current DoD rules.

Key Issues to Consider If Senior Prime Is to Become Permanent

"The demonstration sites have done a commendable job of putting in place an extremely complicated program," said Farley. However, DoD will need to address a number of issues if Senior Prime is to become a permanent program.

- *Care management.* Senior Prime enrollees were heavy users of military treatment facilities. After one year, there were signs that DoD was improving the way it manages care, but more needs to be done if it hopes to eventually break even on its per-person costs. For example, DoD can improve care management for Senior Prime enrollees by using more-efficient methods to budget money and keep track of staff time. But unique requirements for readiness and health support for military deployments also drive costs for military health care, and these are not within the control of the individual facilities.
- *Capitation rates and reimbursement rules.* The capitation rates that Medicare gives DoD to provide care at the demonstration sites is based on a complicated formula. It yields payment

rates for each Senior Prime enrollee that are 7 to 12 percent lower than payments Medicare makes to civilian Medicare health plans serving the same markets. The formula should be adjusted so that the rates are more comparable. In addition, the historical level-of-effort calculation, which determines when Medicare will make capitation payments to DoD, needs to be refined and updated.

- *Capacity concerns.* Addressing this issue may require rethinking some of the Senior Prime operating rules. For example, DoD could allow TRICARE Senior Prime enrollees to use civilian rather than military primary care managers, similar to TRICARE Prime. This would give DoD greater flexibility to ensure access to care, but it could weaken its ability to manage utilization costs.
- *Is Medicare worth it?* A more basic issue that DoD must confront is the administrative overhead costs it shoulders to operate Senior Prime plans as Medicare health plans. Some demonstration sites have suggested that DoD consider simpler, non-Medicare options.

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